

**REPORT OF  
FINANCIAL EXAMINATION**

**FARMERS MUTUAL INSURANCE  
COMPANY OF NODAWAY COUNTY**

**AS OF  
DECEMBER 31, 2005**

**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

August 14, 2006  
Maryville, Missouri

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

**FARMERS MUTUAL INSURANCE COMPANY OF NODAWAY COUNTY**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 311 East Summit Drive (P.O. Box 394), Maryville, Missouri, telephone number (660) 582-4511. This examination began on July 24, 2006, and was concluded on July 25, 2006, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

**Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

### **Comments-Previous Examination Report**

The comments, recommendations, and notes of the previous examination report dated December 31, 2000, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Conflict of Interest**

**Comment:** It was recommended that the Company ensure each officer of the Company sign a conflict of interest statement on an annual basis.

**Company Response:** The Company has corrected this item by requiring all directors and officers to sign conflict of interest statements.

**Current Findings:** The Company currently requires its directors and officers to sign conflict of interest statements on an annual basis.

### **Territory and Plan of Operation**

**Comment:** It is recommended that the agent's contracts contain provisions designating who is responsible for obtaining errors and omissions insurance, ensuring timely delivery of applications and ensuring applications are fully completed when delivered to the home office.

**Company Response:** The Company amended the agent agreements to require agents to obtain errors and omissions insurance and require the timely delivery of fully-completed applications to the home office.

**Current Findings:** The Company's agent agreements currently require the agents to obtain errors and omissions insurance and require the timely delivery of fully-completed applications to the home office.

## **HISTORY**

### **General**

The Company was organized on May 15, 1891, and incorporated on April 1, 1895, as The Farmers

Mutual Fire and Lightning Insurance Company of Nodaway County. The Company subsequently changed its name to Farmers Mutual Insurance Company of Nodaway County. On November 1, 2004, Farmers Mutual Fire and Lightning Insurance Company of Howard County was merged with the Company, with Farmers Mutual Insurance Company of Nodaway County being the surviving entity. In 2005, the Company moved its home office from Burlington Junction, Missouri to Maryville, Missouri.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Saturday in April, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. The Articles do not address the quorum requirements of membership meetings. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of six members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and directors are compensated \$10 for each meeting attended.

Members serving on the Board of Directors as of December 31, 2005, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Steve Miller 21146 400 <sup>th</sup> Street Graham, Missouri	Farmer/Insurance Agent	2005-2008
Robert S. Hall 1021 South Dunn Maryville, Missouri	Bank Executive/Insurance Agent	2005-2008

Terry Nicholas 19903 Bobcat Road Burlington Junction, Missouri	Farmer/Insurance Agent	2003-2006
Patricia Wiederholt 27643 State Highway MM Ravenwood, Missouri	Insurance Agent	2005-2008
Ron Howard 14196 Fairway Road Clearmont, Missouri	Farmer/Insurance Agent	2004-2007
Onedia Wolverton 10003 Noble Road Hopkins, Missouri	Insurance Agent	2003-2006

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2005, were as follows:

Steve Miller	President
Terry Nicholas	Vice-President
Donna Campbell	Secretary/Treasurer

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. On April 13, 2002, the Articles of Incorporation and Bylaws were amended to change all references from "assessment" to "premium" to facilitate the Company's conversion to a non-assessable company. The Articles of Incorporation were also amended on this date to change the minimum number of directors from eight to six. On July 7, 2005, the Articles of Incorporation and Bylaws were amended to change the home office location from

Burlington Junction, Missouri to Maryville, Missouri. On December 1, 2005, the Bylaws were amended to allow annual, semi-annual, quarterly or monthly premium installments.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$100,000 and \$125,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$2,000,000 and a \$2,500 deductible in aggregate for each claim.

The Company's agents are responsible for obtaining their own errors and omissions coverage.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability and workers compensation insurance.

The insurance coverage appears adequate.

### **EMPLOYEE BENEFITS**

The Company has four full-time employees. The Company provides health, life and disability insurance benefits for the employees. The Company also contributes an amount equal seven percent of each employee's gross salary to Simplified Employee Pension (SEP) plan accounts, subject to annual approval by the Board of Directors. The employees are allowed one to three weeks of paid vacation per year, depending upon years of service and five personal days per year. The Company appears to have made adequate provisions in the financial statements for these employee benefits.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by nine licensed agents, six of which are directors of the Company. Depending upon the type of contract granted by the Company, the agents are classified as either "agents" or "agent/adjusters." "Agents" have the authority and responsibility to adjust claims from their book of business for settlement up to \$2,500. "Agent/Adjusters" have the authority and responsibility to adjust all claims from their book of business. The "agent/adjusters" receive an 18% commission, while "agents" receive a 15% commission.

### **Policy Forms and Underwriting Practices**

The Company uses AAIS, Cameron Country and Company-developed policy forms. Policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the agents, and adjusting services are performed by the agent/adjusters.

## **GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2005	\$5,999,913	\$1,399,610	\$2,704,366	\$1,088,911	\$232,124	\$121,895	\$225,322
2004	5,454,358	1,079,377	1,928,589	1,185,811	211,783	(323,820)	(35,342)
2003	5,303,804	999,221	1,564,529	1,114,450	186,526	128,747	237,169
2002	5,015,474	984,069	1,391,561	761,771	222,046	(82,405)	167,664
2001	4,609,885	627,860	1,393,309	911,824	264,812	(45,538)	184,369

At year-end 2005, 4,645 policies were in force.

## REINSURANCE

### General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct	\$1,393,309	\$1,391,561	\$1,564,529	\$1,928,589	\$2,704,366
Assumed	0	0	0	0	0
Ceded	<u>(106,710)</u>	<u>(183,283)</u>	<u>(196,424)</u>	<u>(344,839)</u>	<u>(784,217)</u>
Net	<u>\$1,286,599</u>	<u>\$1,208,278</u>	<u>\$1,368,105</u>	<u>\$1,583,750</u>	<u>\$1,920,149</u>

### Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 3% share in the interests and liabilities of the pool.

### Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains \$50,000 per risk, and the reinsurer's limit is \$100,000. The second layer retention is \$150,000, and the reinsurer's limits are \$50,000 for commercial and confinement risks and \$250,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is \$700,000. Risks ceded under the agreement are limited to \$200,000 for commercial and confinement risks and



\$400,000 for all other risks. The 2005 premium rate, as a percentage of written premiums, equaled 5.54% for layer one coverage and 3.19% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is \$590,000 per occurrence, and the reinsurer's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,590,000, and the reinsurer's limit is 100% of \$2,000,000. The reinsurer's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$4,000,000 for the second layer. The 2005 premium rate was \$.1548 and \$.1250 per \$1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 100% of losses in excess of 80% of the Company's net written premium. The 2005 reinsurance rate was 6.5% of written premium.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

## **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on an accrual basis. The Company's independent CPAs, Harden, Cummins, Moss & Miller, L.L.C., prepare an annual compilation report, the Company's annual statement and tax filings.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the

Company for the period ending December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2005**

Bonds	\$ 3,797,817
Real Estate	207,804
Cash on Deposit	1,741,453
Other Investments	183,178
Reinsurance Recoverable on Paid Losses	2,351
Computer Equipment	8,403
Interest Due and Accrued	21,386
Asset Write-Ins	37,521
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Total Assets	\$ 5,999,913
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**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2005**

Losses Unpaid	\$ 51,386
Ceded Reinsurance Payable	87,162
Unearned Premium	1,148,889
Federal Income Tax Payable	69,399
Liability Write-Ins	42,774
	-----
Total Liabilities	\$ 1,399,610
	-----
Guaranty Fund	\$ 150,000
Other Surplus	4,450,303
	-----
Total Surplus	\$ 4,600,303
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Total Liabilities and Surplus	\$ 5,999,913
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**STATEMENT OF INCOME**  
**December 31, 2005**

Net Premium	\$ 1,697,927
Other Insurance Income	116,080
Net Losses Incurred	(928,467)
Other Underwriting Expenses	(763,645)
	-----
Net Underwriting Income (Loss)	\$ 121,895
	-----
Investment Income	\$ 232,124
Other Income	7,672
	-----
Gross Income (Loss)	\$ 361,691
Federal Income Tax	(136,369)
	-----
Net Income (Loss)	\$ 225,322
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2005**

Policyholders' Surplus, December 31, 2004	\$ 4,374,981
Net Income (Loss)	225,322
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Policyholders' Surplus, December 31, 2005	\$ 4,600,303
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## **NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

## **EXAMINATION CHANGES**

There were no examination changes.

## **GENERAL COMMENTS AND RECOMMENDATIONS**

There were no general comments or recommendations.

## **SUBSEQUENT EVENTS**

None.

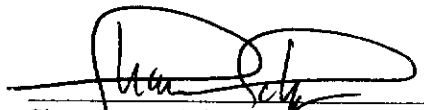
## ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Insurance Company of Nodaway County during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri    )  
                              ) ss  
County of Cole        )

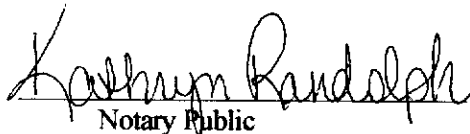
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

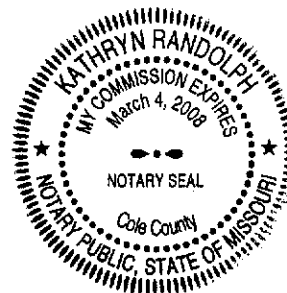
  
Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 14<sup>th</sup> day of August, 2006.

My commission expires:


March 4, 2008

  
Kathryn Randolph  
Notary Public



## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
Frederick G. Heese, CFE, CPA  
Audit Manager – Kansas City  
Missouri Department of Insurance